

**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE**

ADMINISTRATIVE MATTER

☐

DATE

May 08, 2019

MOTOR CARRIER MATTER

☐

DOCKET NO.

2018-318-E

UTILITIES MATTER

☒

ORDER NO.

**THIS DIRECTIVE SHALL NOT SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE;
SUCH ORDER SHALL BE ISSUED AS WRITTEN ORDER NO. 2019-341**

SUBJECT:

DOCKET NO. 2018-318-E - Application of Duke Energy Progress, LLC for Adjustments in Electric Rate Schedules and Tariffs - Staff Presents for Commission Consideration Duke Energy Progress, LLC's Application for Adjustments in Electric Rate Schedules and Tariffs.

COMMISSION ACTION:

In Docket No. 2018-318-E, Duke Energy Progress ("DEP") seeks an increase in electric rates and charges. The utility's initial application included a request for a \$69 million rate increase and a return on equity ("ROE") of 10.50%. To be clear, Mr. Chairman, I understand the Company's requested rate increase for \$69 million is to have an offset of \$10 million by a rate rider, resulting in money being returned to the ratepayers, caused by changes due to the Federal Tax Cuts and Jobs Act. The Company's Application reflects this by requesting a "net increase" of \$59 million and explaining the offset in footnote 1 of its Application.

This case presented the Commission with many difficult issues to resolve. The Commissioners heard compelling testimony from the Company's customers at public hearings held in Florence and Sumter, and the parties presented their evidence at the merits hearing beginning on Thursday, April 11 and concluding on Wednesday, April 17.

One of the most contentious issues at the outset of this case was that of the proposed increase in the monthly Basic Facilities Charge ("BFC"). The Company had initially proposed raising the monthly BFC for residential customers from \$9.06 to \$29.00. The Company also proposed similar BFC increases for customers on other rate schedules. However, the Company subsequently agreed not to oppose capping the BFC at \$11.78 for residential customers, \$12.34 for Small General Service customers, and \$11.31 for Small General Service Constant Load customers, with the remainder of the revenue requirement ultimately approved by this Commission to be collected by the Company in volumetric rates. Further, I move that we limit the increase to the BFC of the Medium General Service customers to be no greater than the average percentage increase of the Small General Service and Small General Service Constant Load customers. We heard loud and clear in testimony presented at the night hearings, that limiting the BFC for customers will minimize the rate impact for those customers that tend to be on fixed incomes, that use less power, or use power only seasonally such as crop farmers. With the addition of the limitation to the BFC of the Medium General Service rate, I move that we adopt this proposal.

In addition to adopting the proposal, I move that we instruct the Company to research how it can assist and educate ratepayers, especially those in agricultural operations, about ways to reduce the number of electric meters used in their operations. To the extent that the number

of meters per operation can be reduced, the ratepayers will pay less and the Company will have less aging infrastructure to maintain. Further, I would like to thank the Company for its commitment to have staff or representatives dedicated to communicating with the agricultural community on these and other relevant issues.

The parties presented to the Commission numerous accounting adjustments, 15 of which were contested. Some of the contested accounting adjustments were the subject of a stipulation executed between the ORS and the Company during the proceeding. After careful consideration of the entire record, including voluminous testimony and exhibits presented by the utility, the Office of Regulatory Staff, and the participating intervenors, I move that we implement the following:

Adopt the accounting adjustments that were the subject of agreement between the ORS and the Company. I move that we adopt the joint position of the ORS and the Company on the following adjustments:

- a. The adjustment for normalization of storm costs, using a 5-year average without any inflation adjustment. This results in an adjustment of \$1,018,000 to O&M expense and income tax by (\$254,000).
- b. The adjustment for credit card fees, using the actual 2018 transactions multiplied by the \$1.50 per transaction fee. The result is an adjustment to O&M expense by \$674,000 and income tax of (\$168,000).
- c. The adjustment regarding rate case expenses. This results in adoption of the ORS position on Adjustment #25. The Company shall continue to defer rate case expenses incurred after December 31, 2018 and send invoices to the ORS for audit.
- d. The adjustment regarding end-of-life nuclear reserve fund. The Company shall adjust depreciation and amortization by \$2,938,000, income taxes by (\$733,000), working capital by (\$2,938,000), and accumulated deferred taxes by \$733,000 to adjust the reserve for end-of-life nuclear costs.
- e. The adjustment to nuclear materials and supplies inventory by (\$599,000) to remove nuclear materials and supplies inventory at the Harris Nuclear Station that have remained in a hold status for more than 4 years.
- f. The adjustment to remove any inflation adjustment to non-labor O&M.

In addition to the stipulated adjustments, I move that we grant the following treatment to the other contested accounting adjustments:

1. Allow recovery for previously deferred amounts as recommended by the ORS.
2. Adopt the ORS position on amortization of deferred environmental costs. By so doing, we are disallowing recovery of \$333,480,308 on a system-wide basis allocated proportionately to South Carolina associated with the incremental increase in coal ash remediation and disposal costs related to North Carolina's Coal Ash Management Act ("CAMA").
3. Disallow a return on the deferred depreciation expenses related to South Carolina AMI meters, but accept the deferred cost of capital be included in rate base. I also move that we adopt the ORS position to amortize the deferral balance over a period of 15 years.
4. Disallow 75% of the South Carolina allocation of Duke Energy CEO Lynn Good's compensation and 50% of the compensation of the Company's next three highest executives;

and accept the Company's adjustment to normalize O&M labor expense and adjust O&M for executive compensation.

5. Disallow a return on the deferral balance related to the Customer Connect Project, resulting in an adjustment of \$763,000 to O&M expense, \$308,000 to depreciation and amortization expense, and (\$267,000) to income tax expense.
6. Disallow inclusion of the deferral balance related to SC Grid in rate base, and amortize the balance over five years, resulting in an adjustment of \$424,000 to depreciation and amortization expense, (\$106,000) to income tax expense, \$1,016,000 to working capital, and (\$253,000) to accumulated deferred taxes.
7. Disallow recovery of \$639,000 in Operation & Maintenance ("O&M") Expenses, including \$390,000 in Coal Ash Litigation Costs, and \$249,000 agreed to by Duke Energy Progress and the Office of Regulatory Staff during the hearing.
8. Disallow adjustment for ongoing payment obligations, due to non-compliance with a contract with CertainTEED.
9. Accept the Company's calculation of the Excess Deferred Income Tax ("EDIT") Rider and adopt ORS's recommendation to review the changing Average Rate Assumption Method rate related to protected EDIT to ensure it is correctly calculated in future periods. Additionally, pursuant to the stipulation between the Company and Nucor Steel, the Company has agreed modify the EDIT Rider as follows: all deferred revenues from January 2018 through May 2019, related to the reduction in the federal tax rate, shall be returned to ratepayers over three years (instead of five years as originally proposed in the Application); and the amount of Distributed Energy Resource Program ("DERP") deferred balances to be offset under the Rider shall be reduced to \$6 million (instead of \$ 12.66 million as originally proposed in the Application). As a result of these modifications, this approach will return excess deferred tax-related dollars to ratepayers more quickly and there will be a larger credit to ratepayers under the EDIT Rider in the first three years.
10. Adopt the remaining adjustments recommended by ORS.

The Company is, by law entitled to a reasonable rate of return on its allowable costs but it has no right to earn profits comparable to highly profitable enterprises or speculative ventures. We have carefully reviewed the testimony and evidence related to the appropriate return on equity ("ROE"). DEP witness Hevert recommended 10.75% with a range of 10.25% to 11.25%. ROE. Walmart witness Chriss testified that 9.76% is the national average of approved ROEs in 111 vertically integrated electric utility rate cases decided over a three-year period from 2016 through 2018. ORS witness Parcell employed three recognized methodologies, the DCF, the CAPM and the Comparable Earnings, to find an appropriate range of 9.1% to 9.5% ROE. I recommend the Commission adopt the high end of Parcell's range by setting the ROE at 9.5%.

With a capital structure reflecting 47% debt and 53% equity, an ROE of 9.5% results in a revenue increase of \$41,474,000. I move that we instruct the Company to prepare a proposed tariff conforming to our findings.

The Commission will file a formal written order which incorporates its complete findings of fact and conclusions of law.

	MOTION	YES	NO	OTHER
BELSER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
ERVIN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
HAMILTON	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
HOWARD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
RANDALL	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
WHITFIELD	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
WILLIAMS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

(SEAL)

RECORDED BY: J. Schmieding

